

# Banks in California generate strongest loan growth on West Coast

By Kevin Dobbs and Razi Haider December 3, 2015

Banks in California produced the strongest loan growth on the West Coast in the third quarter, buttressed by rebounding metropolises in the south and a technology boom in the north.

An SNL Financial analysis of regulatory filings by commercial banking companies below \$100 billion in assets found that banks generated median year-over-year loan growth for the third quarter of 14.35% in California. That was better than the growth in both Oregon and Washington states.

The showing in California, supported by strength in real estate lending, also easily topped the 10.54% median lending expansion posted by commercial banks under \$100 billion throughout the West region. Growth in the West comfortably exceeded the national median growth rate of 6.56%, SNL found.

For California to stand out on the West Coast is particularly meaningful because major markets all along the coast, from Seattle to Los Angeles, are in solid shape, James Bradshaw told SNL. Bradshaw is an analyst at Bridge City Capital LLC, an investment adviser based in Portland, Ore. "There's very strong economic activity all the way up and down the West Coast," he said.

California's October unemployment rate dipped to 5.8% from 5.9% the previous month and from 7.2% a year earlier, according to the state's Employment Development Department. It marked the lowest level since prior to the 2008 financial crisis and accompanying real estate bust that rocked the Golden State's economy at the time. By 2010, California's jobless rate topped 12%. But over the last few years its recovery has proven robust.






The state added jobs at a rate of nearly 3% over the past year, well ahead of the 2% national rate, boosted in large part by construction activity. Growth in the construction sector topped 7% between October of 2014 and the same month this year.

The latest reading of the S&P/Case-Shiller national home price index found that September home price increases in Los Angeles (up 6.4% from a year earlier), San Francisco (up

11.2%) and San Diego (up 6.6%) were all above the 4.9% increase nationally.

Bradshaw said a technology sector upsurge in Silicon Valley and San Francisco has not only bolstered demand for commercial and residential properties in those markets but also in other neighboring areas of Northern California. In Southern California, tech is also strong along with ongoing activity in sectors like health care, transportation

## Median year-over-year loan growth for banks under \$100B in assets (%)

	CRE*	Residential construction	Total
<b>WASHINGTON</b>			
	10.24	4.79	8.79
<b>OREGON</b>			
	13.63	32.21	10.55
<b>CALIFORNIA</b>			
	11.38	33.15	14.35
<b>WEST**</b>			
	10.47	25.39	10.54
<b>NATIONAL</b>			
	4.88	10.57	6.56

Data compiled Dec. 2, 2015.

Includes commercial banks below \$100 billion in assets at the end of the second and third quarters of 2015 and at the end of the third quarter of 2014. Ultimate parent must also be below \$100 billion in assets for the most recent quarter reported. Nondepository trust chartered banks, industrial banks and companies with a loan-to-asset ratio below 25% in the third quarter of 2015 are excluded.

\* CRE = commercial real estate loans

\*\* West region includes the following states and territories: Alaska, Arizona, California, Federated States of Micronesia, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Washington and Wyoming.

Data based on regulatory filings.

Loan categories are not representative of entire loan portfolio.

Source: SNL Financial

Credit: Cat Weeks



and finance. "I'm finding it hard to see anything negative right now," he said, noting that Seattle and Portland also are prosperous — just not as strong as the likes of San Francisco.

Cornerstone Community Bancorp, based in the Northern California city of Red Bluff, serves as a prime example of the overall strength in the nation's most heavily populated state. The bank's third-quarter loans were up 19% from a year earlier, boosted by strong demand from commercial and residential construction clients.

Cornerstone President and CEO Jeffrey Finck told SNL that residents in the area are increasingly confident in their own financial situations, leading more of them to move from renting to buying homes. This in turn is fueling demand for mortgages and residential construction activity.

The positive momentum among consumers is also leading to more spending at various local businesses, resulting in business growth and more expansion plans. This, he said, is fueling demand for commercial loans.

"We have been getting a little more than our fair share," Finck said, "and we are maintaining a healthy loan pipeline. It's fairly healthy across the board, and I haven't seen any signs yet that it is going to moderate."

Cornerstone, with about \$172 million in assets, was a standout among banks between \$100 million and \$1 billion in assets. Median year-over-year growth among commercial banks in that asset range in the West was 6.82%, SNL found.

Median growth among commercial banks in the West between \$1 billion and \$10 billion in assets was 11.07%,

and among banks in the region with assets between \$10 billion and \$100 billion, median growth was 7.69%. Median growth in all three of those asset groups in the West was higher than the national median for all commercial banks under \$100 billion, according to the SNL analysis.

Of course, even in boom times, there are reasons for concern. Notably, in heated markets such as San Francisco, bankers and analysts say lofty demand for homes and office space is driving up property costs so much that some residents and small businesses are getting priced out. What's more, bankers say, history shows that prices cannot climb indefinitely.

James Herbert II, chairman and CEO of San Francisco-based First Republic Bank, said the real estate market in his bank's home base, for instance, is particularly hot and worth watching closely. "Is it overheated or not? I don't really know how to judge that," he said at a November conference. "I've been doing this a long time, but it's never self-evident entirely when it's overheated."

That noted, Herbert suggested that the specter of an overly ripe real estate market is essentially a nice potential problem to have. That is because the backdrop for the real estate upswing is a consistently bright employment picture. "Job creation in San Francisco is still very, very strong," he said.

Such is the case in most major West Coast markets, albeit it to varying degrees, Bradshaw said. "There are signs that we are approaching the back end of a really robust cycle," he said. "But we're not there yet. Things are still really quite good in California and the West Coast overall."